Google

Note: BC submission has been completed on 24 February 2022 - output document here.

This document is now locked for further edits, please ping chewyt@ to make any updates for BC.

BC: Spotify Ltd. (BC22-006)

Submitted (PDT): 24 February 2022
Meeting date (PDT): 10 March 2022

Basic Information

Representatives	Purnima Kochikar, Sameer Samat, Christian Cramer, Mark Bennett
Primary Presenter	Purnima Kochikar
Reason for Escalation	First of a Kind, Top Partner
Product(s)	Google Play, Android
Organization(s)	Partnerships, Platforms & Ecosystems
Partner/Customer/Program Name	Spotify Ltd.
Region(s)	GLOBAL
Simba ID / gContracts ID / SalesForce ID	N/A

Detailed Information

Term Length (months)	24 months
Does this deal include any financial commitments, product implications, or internal competition (offering or partnering with a service or product that	Yes

EXHIBIT 1530

competes with one of Google's products) with other product areas?	
If you've answered yes, what additional Product Areas are implicated	Play & Ecosystem, Devices & Services, Marketing
Does this deal include marketing or co-marketing activities funded by a Marketing cost center	Yes
Ask (1-2 sentences)	The proposed deal with Spotify is the first of its kind "Better Together Program Partnership", which unlocks Play services (including payment processing) as a test program (subject to a separate approval as to the scope) to a custom 'Choice screen' payment solution, offering users a choice to either pay for their subscription via Spotify's own billing channels or via Google Play billing. The reason we are proposing this bespoke deal with Spotify is because of its unprecedented position and bargaining power in the market and we had to offer a creative solution to bring their full value to the Play ecosystem.
Rationale	Redacted - Privilege
Partner overview	Spotify is a leading digital music-streaming service that gives its subscribers on-demand access to songs, podcasts, and other audio/video experiences. For more context, here are some highlights from Spotify's Q4 2021 earnings report includes: ● Spotify's MAU is up +18% y/y to +406m, which is a re-acceleration of growth for them and very rare for a business of their size. ● Global premium subscribers: 180m Revenue is +24% y/y to €2.689B, with ~85% of revenue coming from Premium subscriptions; ● Gross margin on premium subs is consistently within the

	range of 25-27% over the last year. Spotify continues to be one of Google's most strategic partners with integrations and relationships across Google Cloud, Android Auto, Ad Manager, Maps, Assistant/Home, Clock, LCS, and others. Spotify is currently one of the largest GCP customers and Ad Manager's largest Programmatic Guaranteed publisher.
Renewal options	No auto renewal
Financial summary *Provide an overview of the revenue and / or costs associated with this deal. For multi-year deals, please state the costs and revenue accrued each year. For multi-product deals, please provide the highest discount and corresponding rate.*	Please see the **Financial Overview** section for full details and projections. The largest revenue drivers for the deal will be the size of Spotify's premium spend on Android, Spotify's subscriber churn rate on Android, and the share of total transactions that are processed on GPB. Play's COS will also be one factor that impacts revenue given the nature of the proposal (wherein Play will reconcile processing costs with Spotify). Revenues from this deal will not cover all of the costs Play will incur to support Spotify subscribers on GPB. While not exhaustive, Play will also incur support, TI, and the cost to provide Google Play Points (our loyalty program) to Spotify subscribers that are processed via GPB. That being said, if Spotify becomes compliant on Play there are several unquantified benefits to the ecosystem that are also not captured directly in the deal economics.
Manual Finance Support Requirements: Does this proposal require manual support from Finance, Accounting, and/or Billing?	Manual/customized support is required
Manual Finance Support Requirements *If manual support is required or you are unsure, please summarize the (possible) manual support needed here.*	GPB-Compliance Support Any reporting to Spotify on our processing fees (outlined below in the 'Guarantees to the partner' section) will be completely manual, requiring significant effort from Play FP&A and Controllership to prepare. Additionally, while we will not grant Spotify audit rights over our processing costs, Spotify may require a third-party engagement over this reporting in the form agreed-upon procedures, controls testing, etc. Any third-party engagement will likely require significant manual support to finalize and complete

Commented [1]: @Masha Kourakina my initial thoughts on manual support for Spotify

@Brian Brazinski @Sheva Hu
@Andy Nguyen
@Hikomborero Ngwena @Dan Florin
@Tamzin Taylor for vis
Assigned to Masha Kourakina

Commented [2]: Do you think we can absorb this work or will it require Opex budget?

	(e.g. we may need to design and implement new manual controls, providence of their operation for a defined period of time, etc). Success Fund Support We may need to obtain detailed information on how the Success Fund gets used (e.g., campaign-level reporting, invoices, evidence of spend, etc.) to ensure that our financial statements are properly reflected.
Guarantees to the partner "The partner gets..."	Google will offer Spotify access to **'user choice' billing optionality** including: A base choice UI that is the general default, ensuring users are offered an informed choice for how to pay, including both Spotify and Play. Details of this base choice UI include: ● Spotify defined SKU details section ● A choice module with expandable and collapsable choices for Spotify and Play. Each choice (in both expanded and collapsed state) should include information about which FOPs are available with that option. ● A representation for both Spotify and Play of the availability of existing stored forms of payment. Google will offer Spotify **customized Google Billing features** including: ● Per Transaction Pricing & Deferred Billing to allow for: ○ Pricing complexity ○ Upsells / Downsells ○ Deferring payment for customer service reasons ● Dynamic Real Time Grace Periods ● Lifecycle management (including cancel) handled through link-out to Spotify's sub center. Customer service redirected to Spotify (except explicit FOP handling) - gUp to redirect calls ● Ability to price some SKUs differently by FOPs (eg. Spotify price transactions paid for via DCB at a higher price tag) to keep customer

	pricing parity & allows dev to manage costs. Under this proposal, Spotify will pay a fee of 4% of consumer spend at the time of transaction (vs 15% Play service tier for subscriptions). At the end of the year, Google will reconcile the payment processing cost to support Spotify's users on GPB under this unique and bespoke Better Together Program Partnership, and will invoice or pay Spotify the balance accordingly. Under this model, Google has agreed to provide Spotify high level reporting on the costs, broken out by FOP, country and volume.
Guarantees from the partner "Google gets..."	Spotify will: ● Pay Play a fee of 4% of spend for every instance where a Spotify subscriber uses GPB at the time of each transaction. That said, Google will determine its cost to process payments for Spotify at points during the deal term in view of the distinguished value of this deal to Google's business, and will reconcile accounts with Spotiy re: cost of payment processing. ○ Note: As this is a bespoke deal for extraordinary value exchanges between Google and Spotify, reconciling cost of payment processing will NOT consider all of the costs necessary to support Spotify on GPB. ● Partner with Google on development of a new 'choice screen' as a test program; ● Maintain best in class payments features, and user trust & safety standards similar or greater to what Play provides; and ● Commit to build best in class experiences (launch and measurable quality improvements) within the framework of the bespoke billing arrangements that we have to provide to Spotify, on Android as mutually agreed (including on Play, Wear OS, Assistant integrations, and other). In doing so, Google will unlock $50M in "Success Funds", to be matched equally by Spotify to: ● Increase Android premium retention ● Grow Android & Spotify Premium Subscribers on Android ● Increase awareness and consideration for Google's Better Together proposition featuring Spotify

	Fund allocation and marketing activities across these objectives will be informed by alignment against our marketing goals and analysis from Media Lab.
Termination rights	Termination for convenience
Exclusivity	None
Liability caps & indemnities	Google standard language

Risks and Mitigation

Risk	Description	Mitigation	Accountable
Choice screen contagion	Redacted - Privilege		Product

		maintain a safe ecosystem."	
Product Risks	Customized Play Billing features	Program features will not be available immediately and may require reprioritizing features.	Product
Economic Model - Audit Ask Risk	Spotify may demand audit rights for the source data to verify its accuracy.	While Google will not permit audit rights, we will support an independent third party (e.g. EY, our external auditors) to perform certain agreed-upon procedures that reconcile the figures in our high level reporting back to Google data. Alternatively, we could explore having a third party perform a review of the process and controls we have in place surrounding the preparation of the reporting provided to Spotify . This protects Google's commercially sensitive data and provides Spotify with assurance that proper controls exist around the calculation.	Controllership
Economic Model - Carrier Exposure Risks	Google offers carriers 50% of the service fee that Google receives from digital transactions. Under the proposed deal, a nominal fee of 4% has been set as a placeholder. Taken literally, charging Spotify 4% on all transactions (before true up) would mean carriers receive 2%. These transactions would appear in a "special apps category" in Google's reports to carriers. Spotify is likely to drive high DCB volumes.	This proposal includes paying carriers a flat 5% rate (which is possible to do at Google's discretion) so that carriers would receive the same rate for Spotify as they would for other streaming music partners under the new Media Experience Program rates. The expected cost to support a 5% rate for DCB partners under this proposal could be as high as \$15M - \$20M across the 2 year deal term.	Finance / Android BD

Commented [4]: Hi Paul - gentle reminder on this as I realize it was just a long weekend in the US - would you mind please filling in this part for the BC submission?

Commented [3]: Hi Paul Feng . We are in the process of preparing the BC submission (targeting 3/3 for BC presentation).

Can you please help fill in the Product Risks description (second column from left) and Mitigation (third column from left) here within the next few working days? I took a first pass based on your feedback but understand there may be other things to add here.
Thank you!
Assigned to Paul Feng

	Risks are: 1) Exposing Spotify rate to Carriers, 2) Carrier agitation (in context of decreasing returns due to Runway etc), and 3) Exposing DCB rate to Spotify		
Success Fund	The Success Fund is based on a Distribution Marketing Funds (DMF) model where Spotify will equally match the dollars contributed by Google. Funds are released as product integrations are launched by Spotify or Quality Improvements are certified by Google, as agreed by the parties. This carries minimal risk as funds are only released as product obligations are met. The risk is that the Success Fund marketing campaigns underperform.	To mitigate this risk, a Success Fund Governance plan will be included in the contract, obliging each party to provide a team to help ensure the successful delivery of the objectives of the Success Fund.	Marketing / Android GTM

Google cost center paying for the deal (if fees)	Payment processing costs will hit Play Cost of Sales Cost center for the Success Fund may be subject to determination based on the ultimate accounting classification for the Success Fund: ● Success Fund costs would reduce the revenue on this deal to the extent that the Funds is recorded as effectively as a payment to Spotify, or a payment on their behalf ● To the extent that Success Fund is recorded as marketing expense would be billed to Play/Android (final cost center still TBD)
Contract Entity	Spotify Ltd.
Is your deal with, or implicate directly or indirectly, a special	Top Partner

category of partners?	
Does this deal involve Assistant (OPA)? "Yes" if partner will be distributing or syndicating Assistant, or if their services will be integrated in Assistant. Otherwise, "No".	Yes
Is this deal with the customer/partner being negotiated jointly or in conjunction with another deal with the customer/partner in a separate product area?	No
Does this deal commit Alphabet to spend money with or for this customer/partner?	Yes
Is additional headcount required to support this deal or program?	No

Financial overview

See slide below for deal economics:

Proposed Deal Economics

	Unit Economics	Cost over 2-year term: Low	High
Rev- Processing	4.0%	20M	160M
Processing Cost	-4.0%	-20M	-160M
Processing- Net	**0%**	**0M**	**0M**
DST, GDAF, Support	-0.3%	0M	-10M
GPP	-.9% to -2.2%	-10M	-90M
$50M Success Fund	N/A	+ve	-50M
Deal Margin		-10M	-150M

Proposed structure means economics for processing are neutral...

... but Play will bear all costs for support and internal programs (GPP)

Assumptions:
Low scenario assumes GPB processes GC/DCB volumes, + 0.9% cost for GPP
High Scenario assumes 100% GPB share + 2.2% GPP cost
*Success Fund economics dependent on Spotify's willingness to participate

Google

Commented [5]: @Chewy Tang @Tamzin Taylor
Hi both- just a call out here- would you mind please updating this part of the BC doc to reflect the changes we've made in the deck? There's additional language/framing that we'd like to get in there (and the top of this doc says this version is deprecated and the real one is locked).
TY very much!
@Christian Cramer for vis
@Josh O'Connor FYI
Assigned to Chewy Tang

Commented [6]: Hi Brian - I've updated the official BC doc with the current finance slide in the BC deck and also shared edit access for the official BC doc with you, Josh, and Christian:

https://docs.google.com/document/d/1HuDbmq9Hh3_Il1Bno8JoChKU__an1XvITPz4QxU3KyY/edit

Please edit the Finance notes and XFN feedback by EOD Friday (March 4) and tag me in case of any changes. Thank you!

Notes:

- While the size of Spotify on Android + the GPB processing share will drive total revenue (as shown between the "Low" and High" scenario columns), *the proposed structure leads to a neutral economic gross margin.*
- That said, Play still incurs additional costs to support this deal, and therefore economic net margin is expected to be negative.
- The economic view above is NOT the accounting view.
  - While still TBD, it is possible that the Success Fund could be booked as a reduction of revenue for accounting purposes...
    - If that were to happen, then accounting gross margin would be negative as net revenue would be less than accounting cost of sales for this deal.
    - That said, the accounting considerations should not impact the economic view shown above.

Success Metrics

Total Revenue	
Expected Performance	For the calendar year 2022- it depends on the size of Spotify on Android + GPB billing share, but revenue is likely to fall in the range between $2M-$12M.

Date of Reporting Availability	2022-12-31

Cross-Functional Stakeholder Feedback

Function Required stakeholders shown in green	**Feedback / comments** <<please enter LDAP: please enter comments>>
Controllership Divento, mkourakina, pe_dealcompliance	**Pros:** ● Supportive as this brings an incredibly influential, strategically vital partner into compliance. ● Redacted - Privilege **Cons:** ● Redacted - Privilege ● Accounting treatment for $50M in Success Fund is not yet finalized and will depend on the execution of the marketing - specifically, how the funds are used, the level of control we have over the spend, spend reporting received and reviewed by Google, etc. The funds will likely be recorded either as a reduction to Play revenue or as Play/Android marketing expense. Final accounting determination by Play Controllership will be subject to approval by Alphabet Technical Accounting. *Any desire for Success Fund $ to be spent on Google O&O properties could be subject to additional accounting approval and is not guaranteed.* ● Any third-party engagement (whether agreed-upon procedures or controls/process validation) could take significant time to complete - particularly if we need to implement new processes/controls around the preparation of this reporting to satisfy any compliance report. BD needs to manage Spotify's expectations of when such a report will be available. ● The bespoke reporting to Spotify will be custom and first-

Commented [7]: @Masha Kourakina used the same feedback from PEX but in the 'Cons' section, I moved the third-party engagement down to the #3 bullet. I think the contract concerns and accounting treatment are more top-of-mind for people.
Assigned to Masha Kourakina

	of-kind. As no process currently exists to generate similar data, this will be a significant resource investment for Controllership and Finance to prepare.
Android BD/APE wheelerr, jjlewis	**Pros:** ● Supportive. ● Helps bring Spotify into compliance with GPB. ● Payment of 5% to carriers for DCB will bring carrier revenue share into line with the standard music subscription rate - this will help us protect the confidentiality of the customized lower fee we will charge Spotify ● The potential value that this partnership can bring to Play and carrier billing is significant and this is therefore a deal that we should pursue. ● Will help offset carrier concern from recent Runway and Everest announcements- announcements that carriers perceive as reducing DCB revenue share **Cons:** To mitigate the carrier exposure rate (as described above): ● We may need a new product code created, configured & tested to correctly manage the carrier revshare as part of DCB for a new Play payment processing fee. ● This will need to be added to the APP_SPECIAL revshare bucket to ensure we don't share the specific revshare with DCB carriers on 50/50 revshare. ● Even though revshare is not shared with carriers on 50/50 revshare, carriers may be able to deduce the revshare paid to partners. In the case where we pay 5% to carriers though this is unlikely ● Not mitigating for the carrier rate and paying them 50% of the 4% Spotify fee could significantly erode blended carrier rev share and bring some tier one carriers close to the 9% floor that they have in their carrier billing agreements.
Finance joshoconnor, brazinski	**Pros:** ● Supportive ● This deal will bring Spotify into compliance with Google Play's Billing Policy and pave the way for greater collaboration in the future. **Cons:**

	• Net margin to support this deal is expected to be negative over the 2-year deal term. • Other partners may ask for the same deal terms (both product and commercial). • Details for the $50M success fund (including funding source, which could sit with Play or Android) has not been finalized at this time.
Top Partners cdowney, mechiosa	**Pros:** • Brings key partner into compliance with Play's payments policy • Reinforces Better Together product developments **Cons:** • Other large developers and/or Top Partners may wish to have a similar deal
gTech Gtech-pex, santiagoscully, jaschuster	**Pros:** gTech is supportive. • No changes to current support scope for txns made via Play Billing. • gUP will offer Spotify integration via Jarvis to customer support channels, in case they need to escalate a case or if Google needs to escalate one to them. Not mandatory but preferred to improve user experience. **Cons:** • Potential confusion for users when subscribing via 3P, no issue with this given it will be more common as Everest/Halla evolve.
Legal katelee, isleong, tiaa	**Redacted - Privilege**

	Redacted - Privilege
Govt Affairs & Public Policy kghanem, estellewerth	
Product pfeng, mibew, raghareesh	Product is supportive. **Pros:** ● Collaborating with Spotify on billing optionality will improve the platform for all developers.

	● Getting Spotify on Play billing will help ensure the Play ecosystem's health **Cons:** ● Offering Spotify a custom deal like this will require us to have strong justifications. ● The product features Google is agreeing to is a substantial amount of work. ● Program features will not be available for some time, may require reprioritizing features.
Play Partnerships Kochikar, tamzintaylor, rcharma, chewyt, skaram, marchak	Play Partnerships is supportive. **Pros:** ● Brings a globally recognised partner into GPB compliance. ● Deepens partnership with Spotify & sets a new working relationship on Better Together - more structured and accountable governance structure for creating a lighthouse Android partner **Cons:** ● Risks that other partners demand similar terms, access to the test program ● Additional partner management overhead to execute the deal (reporting, governance) ● Spotify may ask for even more favorable terms at deal end
Marketing brianlange, fdolan, acheng	**Pros:** ● Opportunity to work with Spotify around a core component of our Android Premium Share growth strategy (Better Together) and way to drive our mutual growth and retention **Cons:** ● Unclear on the accounting treatment for how these funds will work and thus what marketing activities we will be able to execute ● In addition, to maximize value, need to balanced sales with GTM activities and unclear funding pot for those activities (unless carved out of the $50M but then subject to still different accounting rules) ● Need clear funding mechanism for this as this will not be funded out of our existing Android marketing budget ● Precise marketing activities are still TBC which could impact people resourcing needs to execute

Android GTM mpetrillo	**Pros:** • Place of alignment for Google and Spotify to collaborate (premium devices and premium subs) • Opportunity to target offers at specific users via Spotify CRM (including in-app UI) as well as digital ads • Gives us a proving ground for a potential OEM-direct sales model via a developer **Cons:** • Unclear how fulfillment would work, and how we'd manage it via partners (including carriers) • Unclear exactly what Spotify could / would do with its product and channels to support; too early • Unclear if users are willing to purchase new devices via Spotiy acting as a promotional or even fulfillment channel • Would be nice to have some exclusive content to tie value prop closer to entertainment; also need to sort out bundle / promo economics with Spotify if we go that route

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